

Message Text

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PAGE 01 RIO DE 02425 01 OF 02 261913Z

ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 /065 W

-----128571 261959Z /23

R 261802Z MAY 78

FM AMCONSUL RIO DE JANEIRO

TO SECSTATE WASHDC 6274

INFO AMEMBASSY BRASILIA

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 1 OF 2 RIO DE JANEIRO 2425

SAO PAULO FOR LABOR ATTACHE

E.O. 11652: N/A

TAGS: ELAB, BR

SUBJECT: BRAZILIAN WAGE POLICY

1. SUMMARY: THE GOB EMPLOYS TWO BASIC POLICY TOOLS FOR ESTABLISHING WAGE RATES: THE MINIMUM WAGE AND THE "DISSIDIO." THE MINIMUM WAGE ESTABLISHES BASE SALARY LEVELS FOR INDIVIDUAL WORKERS AND IS REVISED ANNUALLY, SETTING DIFFERENT MINIMUM WAGES FOR EACH OF THE FOUR GOB-DESIGNATED ECONOMIC/GEORGRAPHIC REGIONS IN BRAZAIL. THE DISSIDIO IS THE GUIDELINE ESTABLISHING MINIMUM SALARY INCREASES USED IN RENEGOTIATING COLLECTIVE WAGE CONTRACTS AND IS REVISED ON A MONTHLY BASIS. THERE IS ALSO PRESSURE TO USE THE DISSIDIO AS THE MAXIMUM WAGE INCREASE SINCE FIRMS SUBJECT TO GOB PRICE CONTROLS ARE LIMITED BY THE DISSIDIO IN DETERMINING THE EXTENT TO WHICH HIGHER WAGE COSTS CAN BE PASSED ON TO THE CONSUMER IN THE FORM OF HIGHER PRICES FOR FINISHED PRODUCTS. BECAUSE THE GOB EMPLOYS SIMILAR MATHEMATICAL FORMULAE TO DETERMINE INCREASES IN BOTH MINIMUM

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PAGE 02 RIO DE 02425 01 OF 02 261913Z

WAGES AND DISSIDIO LEVELS, THE TWO POLICY TOOLS ARE CLOSELY COORDINATED. GOVERNMENT WAGE CALCULATIONS TAKE INTO ACCOUNT SHIFTS IN THE COST OF LIVING (I.E. INFLATION) AND THE LEVEL OF PRODUCTIVITY, BUT ALSO REFLECT OVERALL BRAZILIAN ECONOMIC POLICY GOALS. DURING THE PAST TWO YEARS, GOB EMPHASIS ON CUTTING INFLATION HAS LED TO LOWER WAGE INCREASES WHICH, IN TURN, HAVE

RESULTED IN REDUCED REAL INCOME. THIS TREND, COM-
POUNDED BY RECENT STUDIES SUGGESTING A DETERIORATION
IN RELATIVE INCOME LEVELS FOR CERTAIN CLASSES OF
WORKERS, HAS GENERATED GROWING CRITICISM OF GOB WAGE
POLICY. END SUMMARY.

2. A GOVERNMENT-ESTABLISHED MINIMUM WAGE WAS FIRST
IMPLEMENTED BY THE GOB IN 1940. UNTIL 1964, REVISIONS
OF THE MINIMUM WAGE WERE MADE ONLY SPORADICALLY AND
PERCENTAGE INCREASES VARIED WIDELY. AFTER THAT DATE,
INCREASES HAVE TAKEN PLACE ANNUALLY (ANNOUNCED ON
MAY 1) AND HAVE GENERALLY LAGGED BEHIND THE INCREASE
IN THE COST OF LIVING, ALTHOUGH THERE HAVE BEEN
REGIONAL DIFFERENCES. SINCE ITS INCEPTION, THE MINIMUM
WAGE HAS VARIED AMONG THE DIFFERENT ECONOMIC/GEO-
GRAPHIC REGIONS IN BRAZIL. HOWEVER, IN RECENT YEARS
THERE HAS BEEN A SHIFT TOWARD REDUCING BOTH THE
NUMBER OF REGIONS AND THE DIFFERENCE BETWEEN THE
MINIMUM WAGE RATE APPLICABLE IN EACH REGION. THE
NUMBER OF SEPARATE REGIONS RECEIVING DIFFERENT MINIMUM
WAGES HAS BEEN REDUCED FROM A HIGH OF 38 TO THE FOUR
REGIONS UTILIZED IN THE 1978 DECREE. IT SHOULD BE
NOTED THAT MINIMUM WAGE COVERAGE IS NOT UNIVERSAL IN
BRAZIL. ACCORDING TO A RECENT GOVERNMENT STUDY CONDUCTED BY IBGE (THE BRAZILIAN INSTITUTE OF GEOGRAPHY AND
STATISTICS), AS MANY AS AN ESTIMATED 17.6 MILLION
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PAGE 03 RIO DE 02425 01 OF 02 261913Z

WORKERS (OVER 47 PERCENT OF THE COUNTRY'S ECONOMICALLY
ACTIVE POPULATION OF 37 MILLION) RECEIVE SALARIES THAT
DO NOT EXCEED THE MINIMUM WAGE.

3. OVER THE PAST 25 YEARS, THE DIFFERENCE BETWEEN WAGE
RATES HAS DECLINED: IN 1954, THE HIGHEST MINIMUM WAGE
WAS 4.3 TIMES LARGER THAN THE MINIMUM WAGE IN THE
LOWEST REGION, WHILE THE 1978 DECREE ESTABLISHED THE
HIGHEST MINIMUM WAGE AT A LEVEL ONLY 1.4 TIMES LARGER
THAN THE LOWEST. THIS REDUCTION IN THE DISPARITY AMONG
MINIMUM WAGES FOR DIFFERENT REGIONS HAS BEEN ACHIEVED
BY GRANTING LARGER PERCENTAGE INCREASES FOR THE LOWEST
MINIMUM WAGES. IT SHOULD BE NOTED, HOWEVER, THAT THE
PERCENTAGE DIFFERENTIAL WAS VERY SMALL IN 1978, WITH
THE HIGHEST MINIMUM WAGE INCREASING BY 41 PERCENT AND
THE LOWEST RISING BY AN ONLY SLIGHTLY HIGHER 41.16
PERCENT. THE MONTHLY MINIMUM WAGES ESTABLISHED
MAY 1, 1978 VARIED FROM CR\$ 1560 (U.S. 90.33) IN THE
STATES OF RIO DE JANEIRO, SAO PAULO, MINAS GERAIS AND
THE FEDERAL DISTRICT, TO CR\$ 1111.20 (U.S. 64.34) IN THE
POOREST REGIONS IN THE NORTHEAST. (FYI: THE LOWER
MINIMUM WAGE WAS MAINTAINED IN THESE REGIONS BECAUSE IT

WAS FEARED THAT A HIGHER LEVEL WOULD INCREASE UNEMPLOYMENT.)

4. ALTHOUGH THE 41 PERCENT MINIMUM WAGE INCREASE IS HIGHER THAN THE INCREASES IN THE COST OF LIVING OVER THE PAST YEAR IN RIO AND SAO PAULO (WHERE, RESPECTIVELY, THE COL INCREASED 39.2 PERCENT AND 38.55 PERCENT), PRESIDENT GEISEL ADMITTED, IN A LABOR DAY SPEECH TO WORKERS IN RIO GRANDE DO SUL, THAT THE INCREASE WAS DISAPPOINTINGLY SMALL. (IN FACT, COL INCREASES IN RIO AND SAO PAULO WERE AT THE VERY BOTTOM OF THE SCALE. COL INCREASES IN ALL OTHER INDUSTRIALLY IMPORTANT STATE CAPITALS WERE WELL ABOVE THESE PERCENTAGES. AS BRAZILIAN INDUSTRIALIZATION DECENTRALIZES, THE CUSTOM OF PEGGING LIMITED OFFICIAL USE

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PAGE 04 RIO DE 02425 01 OF 02 261913Z

THE MINIMUM WAGE INCREASES TO THE COL INCREASES IN RIO HAS WORKED WELL IN PRACTICE AND IS LESS DEFENSIBLE AS POLICY.) THE PRESIDENT POINTED TO THE GOB POLICY GOAL OF REDUCING INFLATION AS THE REASON FOR THE SMALLER INCREASE. ALTHOUGH GEISEL CALLED FOR UNDERSTANDING AND COOPERATION IN HELPING BRAZIL OVERCOME THE ECONOMIC PROBLEMS AT HAND, REACTION TO THE NEW MINIMUM WAGE LEVELS HAS BEEN CRITICAL.

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PAGE 01 RIO DE 02425 02 OF 02 261923Z

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R 261802Z MAY 78

FM AMCONSUL RIO DE JANEIRO

TO SECSTATE WASHDC 6275

INFO AMEMBASSY BRASILIA

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 2 OF 2 RIO DE JANEIRO 2425

SAO PAULO FOR LABOR ATTACHE

5. A RECENTLY PUBLISHED STUDY BY DIEESE (DEPARTMENT OF SOCIO-ECONOMIC STATISTICAL STUDIES) -- A LABOR-SPONSORED RESEARCH ASSOCIATION -- HAS HIGHLIGHTED THE INADEQUACY OF CURRENT MINIMUM WAGES AND THE DETERIORATION OVER TIME OF REAL INCOME FOR WORKERS RECEIVING THE MINIMUM WAGE. ACCORDING TO LAW, THE MINIMUM WAGE IS DESIGNED TO ASSURE WORKERS AND THEIR FAMILIES SUFFICIENT INCOME TO OBTAIN BASIC FOOD, HOUSING, HEALTH CARE AND TRANSPORTATION. HOWEVER, THE DIEESE STUDY SHOWS THAT, FOR A FAMILY OF FOUR LIVING IN SAO PAULO, THE COST OF FOOD ALONE IS CR\$ 2063 PER MONTH, WHICH IS 1.32 TIMES HIGHER THAN THE MONTHLY MINIMUM WAGE FOR THE SAO PAULO REGION (CR\$ 1560 PER MONTH). THE PAPER ALSO HIGHLIGHTS THE DETERIORATION OF REAL PURCHASING POWER FOR MINIMUM WAGE RECIPIENTS. USING THE INITIAL MINIMUM WAGE ESTABLISHED IN 1940 AS THE BASE, DIEESE HAS CALCULATED THAT, IN SAO PAULO, THIS WAGE HAD RISEN ONLY 502.8 PERCENT BY 1977, WHEREAS THE SAO PAULO COST OF LIVING INCREASED 1091.5 PERCENT. THUS, DIEESE CONCLUDED THAT IN ORDER TO MERELY RE-ESTABLISH THE REAL VALUE OF THE 1940 MINIMUM WAGE LIMITED OFFICIAL USE

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PAGE 02 RIO DE 02425 02 OF 02 261923Z

RATE, THE 1978 FIGURES SHOULD HAVE INCREASED 117 PERCENT OVER THE PRIOR YEAR'S MINIMUM WAGE. TAKING ITS ANALYSIS ONE STEP FURTHER, THE STUDY ALSO NOTED THAT BRAZIL'S REAL GNP GROWTH BETWEEN 1940 AND 1977 WAS 318.5 PERCENT. HENCE, IF REAL WAGES WERE TO KEEP PACE WITH THE INCREASE IN GNP, THE 1978 MINIMUM WAGE INCREASE WOULD HAVE TO BE 908 PERCENT, REACHING THE LEVEL OF CR\$ 10,051 RATHER THAN THE CR\$ 1568 ESTABLISHED MAY 1. MINISTRY OF LABOR DATA CORROBORATE THE DECLINING TREND IN REAL WAGES FOR SAO PAULO (WHICH RECEIVES THE HIGHEST REGIONAL MINIMUM WAGE). HOWEVER, THEIR DATA ALSO SHOWS AN INCREASE IN REAL TERMS FOR THE LOWEST MINIMUM WAGES. EXPRESSED IN REAL CRUZEIROS (OF MARCH 1978), THE SAO PAULO MINIMUM WAGE DECLINED FROM CR\$ 1443.32 IN 1964 (THE BEGINNING OF THE REVOLUTIONARY GOVERNMENT), TO CR\$ 1245.92 IN 1973 (THE BEGINNING OF THE GEISEL ADMINISTRATION), AND FELL FURTHER TO CR\$ 1235.38 BY 1977. HOWEVER, THE LOWEST MINIMUM WAGE, APPLICABLE IN THE POORER REGIONS OF THE NORTHEAST, ROSE FROM CR\$ 666.69 IN 1964 TO CR\$ 850.62 IN 1973, AND UP TO CR\$ 878.09 BY 1977. THESE TRENDS ALSO REFLECT THE DECLINE OF REGIONAL DISPARITIES AMONG MINIMUM WAGES NOTED IN PARA 3.

6. THE DISSIDIO HAS ALSO LAGGED INFLATION IN RECENT

YEARS, RESULTING IN A DETERIORATION OF REAL WAGES FOR WORKERS WHOSE COLLECTIVE BARGAINING CONTRACTS ARE SUBJECT TO READJUSTMENT IN LINE WITH DISSIDIO LEVELS. REVISED EACH MONTH, THE DISSIDIO INCREASES HAVE REMAINED FAIRLY CONSTANT OVER THE PAST YEAR. THE DISSIDIO REMAINED AT 40 PERCENT EACH MONTH BETWEEN APRIL 1977 AND JANUARY 1978, FALLING SLIGHTLY TO 39 PERCENT IN FEBRUARY 1978. JANUARY 1978 MARKED THE LIMITED OFFICIAL USE

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PAGE 03 RIO DE 02425 02 OF 02 261923Z

FIRST MONTH IN OVER A YEAR THAT THE DISSIDIO LEVEL SURPASSED THE INCREASE IN THE RIO COST OF LIVING; THIS RESULTED IN AN IMMEDIATE REDUCTION IN THE DISSIDIO LEVEL THE FOLLOWING MONTH. THE RESULTING EFFECT ON INCOME DISTRIBUTION HAS BEEN QUICKLY NOTED BY CRITICS OF GOB WAGE POLICY.

7. IN AN EFFORT TO AMELIORATE THE HARSH EFFECTS OF TIGHT WAGE POLICIES ON THE POOREST SEGMENTS OF THE POPULATION, LABOR MINISTER PRIETO HAS PUT FORWARD A PROPOSAL FOR REDISTRIBUTING DISSIDIO INCREASES. THE PROPOSAL (DUBBED THE "ROBIN HOOD PLAN" BY THE LOCAL PRESS) WOULD RESULT IN HIGHER PERCENTAGE INCREASES IN THE SALARIES OF LOW WAGE EARNERS AT THE EXPENSE OF RELATIVELY SMALLER WAGE INCREASES FOR HIGHER INCOME EMPLOYEES. THIS PROPOSAL WAS IMMEDIATELY CRITICIZED BY LABOR ORGANIZATIONS, WHICH NOTED THAT THE RICHEST SEGMENTS OF THE POPULATION -- WHO DO NOT DERIVE THE BULK OF THEIR INCOME FROM WAGES -- WOULD BE UNAFFECTED BY THE PLAN, WHILE MIDDLE CLASS WORKERS WHO HAD ACHIEVED A REASONABLE INCOME LEVEL WOULD BEAR MOST OF THE BURDEN OF IMPROVING THE LOT OF LOW INCOME GROUPS. THE CRITICISM EMPHASIZED THE DIFFERENCE BETWEEN WAGE DISTRIBUTION, AS ENVISAGED IN PRIETO'S PROPOSAL, AND TRUE INCOME DISTRIBUTION, WHICH LABOR VIEWS AS THE PROPER LONG-TERM GOVERNMENT GOAL.

8. ALTHOUGH HEAVILY CRITICIZED, THE GOB REMAINS FIRM IN ITS COMMITMENT TO MAINTAIN TIGHT CONTROL OVER WAGE INCREASES. PARTICULARLY NOW THAT 1978 ECONOMIC PROSPECTS HAVE BEEN ADVERSELY AFFECTED BY THE DROUGHT, THERE IS A STRONG LIKELIHOOD THAT CURRENT WAGE POLICIES WILL CONTINUE THROUGHOUT THIS YEAR AND INTO THE NEXT ADMINISTRATION.

9. EMBASSY CONCURS.
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PAGE 04 RIO DE 02425 02 OF 02 261923Z

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, WAGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 26 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978RIODE02425
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780223-0677
Format: TEL
From: RIO DE JANEIRO
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1978/newtext/t19780514/aaaaalfz.tel
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Litigation History:
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Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
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Review Event:
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Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2548945
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Status: NATIVE
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To: STATE
Type: TE
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Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014